

# **Auditor's report**

Umjindi Local Municipality

30 June 2015

# **Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Umjindi Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Umjindi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umjindi Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Restatement of corresponding figures

8. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

## Material losses

9. As disclosed in note 50 to the financial statements, material losses of 29 974 490 units (2013-14: 29 781 471 units) were incurred as a result of electricity distribution losses, which represented 32% (2013-14: 32%) of the total electricity units purchased.

## Material impairments

10. As disclosed in note 11 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R61 459 404 (2013-14: R57 712 114), which represented 58% (2013-14: 64%) of the total consumer debtors. The contribution to the provision for debt impairment was R7 115 622 (2013-14: R12 928 483).

## Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2015:
  - Key performance area 1: basic service delivery and infrastructure development, on pages ... to ...
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify material findings on the usefulness and reliability of the reported performance information for the following key performance area:
  - Basic service delivery and infrastructure development

## Additional matters

19. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected key performance area, I draw attention to the following matters:

## Achievement of planned targets

20. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year.

## **Adjustment of material misstatements**

21. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the key performance area relating to basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not identify material findings on the usefulness and reliability of the reported performance information.

## **Compliance with legislation**

22. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Annual financial statements, performance report and annual report**

23. Consolidated financial statements were not submitted for auditing within three months after the end of the financial year, as required by section 126(1)(b) of the MFMA. The financial statements submitted for auditing were also not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

24. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulation 17.
25. Invitations for competitive bidding were not always advertised for the required minimum period, as required by SCM regulation 22(1) and 22(2).

## **Expenditure management**

26. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
27. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

## **Conditional grants**

28. The municipality did not evaluate its performance in respect of programmes funded by the municipal infrastructure grant allocation, as required by section 12(5) of DoRA.
29. The municipality did not evaluate its performance in respect of programmes or functions funded by the municipal systems improvement grant allocation, as required by section 12(5) of DoRA.

30. The municipality did not evaluate its performance in respect of programmes or functions funded by the local government financial management grant allocation, as required by section 12(5) of DoRA.

## **Asset management**

31. An effective system of internal control for assets (including an asset register) was not adequately monitored, as required by section 63(2)(c) of the MFMA.

## **Internal control**

32. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## **Leadership**

33. The municipality did not provide adequate controls to ensure that compliance with laws and regulations was monitored and adhered to, to prevent the occurrence of irregular expenditure.
34. Management established a formal code of conduct that addressed appropriate ethical and moral behaviour, but staff members did not adequately implement the code.

## **Financial and performance management**

35. Management at the appropriate level did not ensure that compliance with applicable laws and regulations was adequately reviewed and monitored throughout the year.
36. Financial information submitted with the financial statements for auditing was not adequately reviewed for accuracy and completeness.
37. The reported performance information in the annual performance report submitted for auditing was not adequately reviewed against supporting evidence to ensure that it was valid, accurate and complete.

*Auditor – General*  
Mbombela

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

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